

Auditor-General of South Africa

Umvoti Local Municipality
Audit Report 2018-19

Report of the auditor-general to the KwaZulu-Natal Provincial Legislature and the council on the Umvoti Local Municipality

Report on the audit of the financial statements

Opinion

1. I have audited the financial statements of the Umvoti Local Municipality set out on pages x to x, which comprise the statement of financial position as at 30 June 2019, the statement of financial performance, statement of changes in net assets, cash flow statement and the statement of comparison of budget information with actual information for the year then ended, as well as the notes to the financial statements, including a summary of significant accounting policies.
2. In my opinion, the financial statements present fairly, in all material respects, the financial position of the Umvoti Local Municipality as at 30 June 2019, and its financial performance and cash flows for the year then ended in accordance with the South African Standards of Generally Recognised Accounting Practice (SA Standard of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA) and the Division of Revenue Act of South Africa, 2018 (Act No. 1 of 2018) (Dora).

Basis for opinion

3. I conducted my audit in accordance with the International Standards on Auditing (ISAs). My responsibilities under those standards are further described in the auditor-general's responsibilities for the audit of the financial statements section of this auditor's report.
4. I am independent of the municipality in accordance with sections 290 and 291 of the International Ethics Standards Board for Accountants' *Code of ethics for professional accountants* and, parts 1 and 3 of the International Ethics Standards Board for Accountants' *International code of ethics for professional accountants (including International Independence Standards)* (IESBA codes) as well as the ethical requirements that are relevant to my audit in South Africa. I have fulfilled my other ethical responsibilities in accordance with these requirements and the IESBA codes.
5. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

Emphasis of matters

6. I draw attention to the matters below. My opinion is not modified in respect of these matters.

Material impairment and provision– trade and other receivables

7. As disclosed in notes 5 and 6 to the financial statements, the municipality made a material provision for the impairment of trade debtors totalling to R36,91 million (2017-18: R37,98 million). This was due to debtors accounts that remained unpaid over a long period. The actual bad debts written-off amounted to R12,06 million. The write-off relates to consumers, who were subsequently declared indigent by the municipality.

Material losses – electricity

8. As disclosed in note 40 to the financial statements, the municipality incurred material electricity losses of R7,04 million (2017-18: R11,64 million). These were mainly due to illegal connections, and distribution losses caused by ageing infrastructure, and represents 14,27% of total electricity purchased by the municipality.

Other matter

9. I draw attention to the matter below. My opinion is not modified in respect of this matter.

Unaudited disclosure notes

10. In terms of section 125(2)(e) of the MFMA, the municipality is required to disclose particulars of non-compliance with the MFMA in the financial statements. This disclosure requirement did not form part of the audit of the financial statements, and accordingly, I do not express an opinion on it.

Responsibilities of the accounting officer for the financial statements

11. The accounting officer is responsible for the preparation and fair presentation of the financial statements in accordance with the SA Standards of GRAP and the requirements of the MFMA and Dora, and for such internal control as the accounting officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.
12. In preparing the financial statements, the accounting officer is responsible for assessing the Umvoti Local Municipality's ability to continue as a going concern, disclosing, as applicable, matters relating to going concern and using the going concern basis of accounting unless the appropriate governance structure either intends to liquidate the municipality or to cease operations, or has no realistic alternative but to do so.

Auditor-general's responsibilities for the audit of the financial statements

13. My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with the ISAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.
14. A further description of my responsibilities for the audit of the financial statements is included in the annexure to this auditor's report.

Introduction and scope

15. In accordance with the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) (PAA) and the general notice issued in terms thereof, I have a responsibility to report material findings on the reported performance information against predetermined objectives for the selected objectives presented in the annual performance report. I performed procedures to identify findings but not to gather evidence to express assurance.
16. My procedures address the reported performance information, which must be based on the approved performance planning documents of the municipality. I have not evaluated the completeness and appropriateness of the performance indicators/measures included in the planning documents. My procedures also did not extend to any disclosures or assertions relating to planned performance strategies and information in respect of future periods that may be included as part of the reported performance information. Accordingly, my findings do not extend to these matters.
17. I evaluated the usefulness and reliability of the reported performance information in accordance with the criteria developed from the performance management and reporting framework, as defined in the general notice, for **objective 2 – basic services** set out on pages x to x, as presented in the annual performance report of the municipality for the year ended 30 June 2019.
18. I performed procedures to determine whether the reported performance information was properly presented and whether performance was consistent with the approved performance planning documents. I performed further procedures to determine whether the indicators and related targets were measurable and relevant, and assessed the reliability of the reported performance information to determine whether it was valid, accurate and complete.
19. The material findings in respect of the usefulness and reliability of the selected objective are as follows:

Objective 2 - Basic services

Various indicators - performance indicators were not well-defined

20. The source information and evidence for achieving the planned indicators listed below were not clearly defined, as it was not clear and specific on the location as to where the required performance will take place:

Indicator description	Planned targets
Number of kilometres of premix/tar roads maintained (patching of potholes, fixing of edge breaks, fixing of road cracks and reinstatements)	69 km
Number of metres of pavements maintained per annum	7 500 metres
Number of metres of storm water drains maintained (cleaning of storm water drains and catch pits, weed killing, unblocking) per annum	69 000 metres

Various indicators - reported achievement not agreeing to audited value

21. The reported achievement of the indicators listed in the table below, did not agree to the supporting evidence provided for auditing:

Indicator description	Reported value	Audited value
Number of trips transporting waste to Umsunduzi Landfill Site by 30 June 2019	163	143
Number of Households issued with refuse bags quarterly by 30 June 2019	423	414
Number of businesses issued with refuse bags monthly by 30 June 2019	219	117
Number of kilometers of Shayamoya gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 1)	3.4 km	3 km
Number of kilometers of Notha gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 1)	3.1 km	3.8 km
Number of kilometers of Mhlazane gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 4)	3.3 km	2 km
Number of kilometers of Gqamu gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 5)	2.9 km	1 km
Number of kilometers of Sinyambothi gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 5)	1.3 km	0.7 km
Number of kilometers of Dulumbe gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 5)	1.1 km	1.5 km
Number of kilometers of Mxhakeni gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 8)	3.9 km	5.2 km
Number of kilometers of Vondela gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 8)	3.5 m	2.7 km
Number of kilometers of Elangeni gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 8)	1 km	0.6 km
Number of kilometers of Phasiwe Hall road maintained (blading, opening of mitre drains and regravelling) annually (Ward 10)	0.7 km	0.2 km
Number of kilometers of Woolstone gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 10)	2.5 km	1.1 km
Number of kilometers of Lindelani gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 10)	3 km	0.4 km
Number of kilometers of Mbalane to Mbalane 1 gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 11)	9.8 km	11.2 km
Number of kilometers of Mdasida gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 11)	0.58 km	0.7 km
Number of kilometers of Farm Hillerman gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 11)	3 km	1 km
Number of kilometers of Matshemane gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 12)	6.2 km	6.5 km
Number of kilometers of Mgonothi gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 12)	2.2 km	1.5 km
Number of kilometers of Embangweni gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 13)	4.3 km	3.1 km
Number of kilometers of Esihayini gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 13)	2.7 km	3.1 km

Indicator description	Reported value	Audited value
Number of kilometers of Siholweni next to Maphahleni (Msengeni) gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 14)	2.3 km	4.9 km
Number of kilometers of premix/tar roads maintained (Patching of potholes, fixing of edge breaks, fixing of road cracks and reinstatements)	69 km	38.46 km
Number of meters of pavements maintained per annum	7 504 m	4506 m
Number of meters of storm water drains maintained (cleaning of storm water drains and catch pits, weed killing, unblocking) per annum	69 003 m	44 331 m

Various indicators - reported achievement not supported by sufficient appropriate audit evidence

22. I was unable to obtain sufficient appropriate audit evidence for the reported achievement of indicators listed in the table below. This was due to limitations placed on the scope of my work. I was unable to confirm the reported achievement by alternative means. Consequently, I was unable to determine whether any adjustments were required to the reported achievement in the annual performance report:

Indicator description	Reported achievement
Percentage of street lights maintained by 30 June 2019	100%
Number of Public Facilities maintained (Grass Cutting, Brush Cutting, Tree Pruning, weed killing, raking) (King Edward Park, Botanical Garden, Lake Merthley, Lakhi's Sportsfield, Acacia Park)	5
Number of kilometers of Louis Botha and Shepstone, Dr Gordon & Dr Wessles street verges maintained (Grass Cutting, Brush Cutting, Tree Pruning, weed killing, raking) annually (Ward 9)	6 km
Number of kilometers of Durban, Voortrekker, Pine, Cath -Cart , York and Cooper street verges maintained (Grass Cutting, Brush Cutting, Tree Pruning, weed killing, raking) annually (Ward 9)	12 km
Number of kilometers of Kranskop street verges maintained (Grass Cutting, Brush Cutting, Tree Pruning, weed killing, raking) annually (Ward 5)	12.5 km
Number of kilometers of Enhlalakahle Township street verges maintained (Grass Cutting, Brush Cutting, Tree Pruning, weed killing, raking) annually (Ward 7)	12.5 km
Number of kilometers of Muden street verges maintained (Grass Cutting, Brush Cutting, Tree Pruning, weed killing, raking) annually (Ward 8)	1.3 km
Number of kilometers of Kwambatha to Gomane gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 2)	1.22 km
Number of kilometers of KwaMagwaza store, KwaPholi to KwaMazibuko gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 2)	2.55 km
Number of kilometers of Ntuthu gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 3)	2.8 km
Number of kilometers of Cubhu gravel road maintained (blading, opening of mitre drains and regravelling) annually Ward 4	1.8 km
Number of kilometers of Mbambo to Eplazini gravel road maintained (blading, opening of mitre drains and regravelling) annually Ward 4)	1 km
Number of kilometers of Madondo to Senzeni gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 4)	0.9 km
Number of kilometers of Ndundumeni/Nhlosweni gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 6)	1.3 km
Number of kilometers of Dimani gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 6)	2 km

Indicator description	Reported achievement
Number of kilometers of Mhlabathini gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 6)	0 km
Number of kilometers of Shalom gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 10)	0 km
Number of kilometers of Mbalane to Kwadladla gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 11)	0.55 km
Number of kilometers of Malongwane to Madasida gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 11)	0.58 km
Number of kilometers of Egqebeni gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 12)	1.6 km
Number of kilometers of Siholweni next to Maphahleni (Msengeni) gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 14)	0 km
Number of kilometers of Ubhalabhala gravel road maintained (blading, opening of mitre drains and regravelling) annually (Ward 14)	0 km
Percentage of Municipal Vehicles maintained /Serviced in house by 30 June 2019	100%
Percentage of Municipal Vehicles Serviced by 30 June 2019 (Out sourced)	100%
Number of Municipal Vehicles licensed by 30 June 2019	34
Percentage of Municipal Vehicles insured by 30 June 2019	100%
Percentage of Municipal Plant Serviced by 30 June 2019 (Out sourced)	100%
Percentage of Municipal Plant insured by 30 June 2019	100%

Report on the audit of compliance with legislation

Introduction and scope

23. In accordance with the PAA and the general notice issued in terms thereof, I have a responsibility to report material findings on the compliance of the municipality with specific matters in key legislation. I performed procedures to identify findings but not to gather evidence to express assurance.
24. The material findings on compliance with specific matters in key legislation are as follows:

Financial statements

25. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122(1) of the MFMA. Material misstatements in the investment property, goods and services expenditure and irregular and unauthorised expenditure identified by the auditors in the submitted financial statement were subsequently corrected, resulting in the financial statements receiving an unqualified audit opinion.

Expenditure management

26. Reasonable steps were not taken to prevent irregular expenditure amounting to R58,17 million as disclosed in note 38 to the financial statements, as required by section 62(1)(d) of the MFMA.
27. Reasonable steps were not taken to prevent unauthorised expenditure amounting to R16,61 million as disclosed in note 46 to the financial statements, as required by section 62(1)(d) of the MFMA.

28. Reasonable steps were not taken to prevent fruitless and wasteful expenditure amounting to R1,87 million as disclosed in note 37 to the financial statements, as required by section 62(1)(d) of the MFMA.

Consequence management

29. Some irregular expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.
30. Unauthorised expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(a) of the MFMA.
31. Some of fruitless and wasteful expenditure expenditure incurred by the municipality was not investigated to determine if any person is liable for the expenditure, as required by section 32(2)(b) of the MFMA.

Human resource management

32. Appropriate systems and procedures to monitor, measure and evaluate performance of staff were not developed and adopted, as required by section 67(1)(d) of the Municipal Systems Act, 2000 (Act No. 32 of 2000).

Strategic planning and performance management

33. The service delivery and budget implementation plan for the year under review did not include monthly revenue projections by source of collection and the monthly operational and capital expenditure by vote, as required by section 1 of the MFMA.

Procurement and contract management

34. Some goods and services with a transaction value below R200 000 were procured without obtaining the required price quotations, as required by regulation 17(1)(a) and 17(1)(c) of Municipal Supply Chain Management Regulations of 2005 (GNR. 868 dated 30 May 2005) (MSCMR).
35. Some of the invitations for competitive bidding were not advertised for a required minimum period of days, in contravention of SCM regulation 22(1) and 22(2).
36. Competitive bids were adjudicated by a bid adjudication committee that was not composed in accordance with regulation 29(2) of the MSCMR. A similar non-compliance was also reported in the prior year.

Other information

37. The accounting officer is responsible for the other information. The other information comprises the information included in the annual report. The other information does not include the financial statements, the auditor's report and those selected objectives presented in the annual performance report that have been specifically reported on this auditor's report.

38. My opinion on the financial statements and findings on the reported performance information and compliance with legislation do not cover the other information and I do not express an audit opinion or any form of assurance conclusion thereon.
39. In connection with my audit, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements and the selected objectives presented in the annual performance report, or my knowledge obtained in the audit, or otherwise appears to be materially misstated.
40. I did not receive the other information prior to the date of this auditor's report. When I do receive and read this information, and if I conclude that there is a material misstatement therein, I am required to communicate the matter to those charged with governance and request that the other information be corrected. If the other information is not corrected, I may have to retract this auditor's report and re-issue an amended report as appropriate. However, if it is corrected this will not be necessary.

Internal control deficiencies

41. I considered internal control relevant to my audit of the financial statements, reported performance information and compliance with applicable legislation; however, my objective was not to express any form of assurance on it.
42. The matters reported below are limited to the significant internal control deficiencies that resulted in the findings on the annual performance report and the findings on compliance with legislation included in this report.
43. The misstatements identified in financial statements and annual performance report were caused mainly by the inadequate application of the financial reporting framework, and a lack of proper reviews on quarterly, mid-year, and annual performance reports by management to ensure it was supported by reliable and complete information.
44. Management also did not adequately review and monitor the internal controls to ensure that the laws and regulations applicable to the municipality were fully complied with.

Auditor-General

Pietermaritzburg

30 January 2020



AUDITOR - GENERAL
SOUTH AFRICA

Auditing to build public confidence

Annexure – Auditor-general’s responsibility for the audit

1. As part of an audit in accordance with the ISAs, I exercise professional judgement and maintain professional scepticism throughout my audit of the financial statements, and the procedures performed on reported performance information for selected objectives and on the municipality’s compliance with respect to the selected subject matters.

Financial statements

2. In addition to my responsibility for the audit of the financial statements as described in this auditor’s report, I also:
 - identify and assess the risks of material misstatement of the financial statements whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control
 - obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the municipality’s internal control
 - evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the accounting officer
 - conclude on the appropriateness of the accounting officer’s use of the going concern basis of accounting in the preparation of the financial statements. I also conclude, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Umvoti Local Municipality’s ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor’s report to the related disclosures in the financial statements about the material uncertainty or, if such disclosures are inadequate, to modify the opinion on the financial statements. My conclusions are based on the information available to me at the date of this auditor’s report. However, future events or conditions may cause a municipality to cease continuing as a going concern
 - evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation

Communication with those charged with governance

3. I communicate with the accounting officer regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during my audit.
4. I also confirm to the accounting officer that I have complied with relevant ethical requirements regarding independence, and communicate all relationships and other matters that may reasonably be thought to have a bearing on my independence and, where applicable, related safeguards.